Start Your Acquisition Program Ten Minutes from Now

George Hamilton

George Hamilton is director of corporate development for Zoecon Industries, Dallas, Texas.

In a hurry to get your acquisitions program off the ground? Using a screening matrix to sift through possibilities can identify likely prospects and point out potential problems. But remember: Getting what you want is likely to depend on what you bring.

Patience is not an American virtue. We're a nation in a hurry. How else can we explain our passion for jet planes, *Reader's Digest*, fast food, and quickie divorces? Maybe that on-the-go mentality explains the renewal of enthusiasm for acquisitions. Management, impatient with the pace of growing the old-fashioned way—by *earning* it—can reduce finger-drumming sharply by shopping for a living, breathing company that has promise.

If your name is Pickens or Murdoch, you've done it so often that you already know how to go about acquiring companies like watch charms. Assuming that's not the case, however, how do *you* start? In keeping with the American tradition of doing things quickly, consider this article a sort of McGuffey's *Reader* on the arcane process of acquisition.

The Policy Statement

Few companies have much experience with acquisitions. There are some companies that conclude a deal a year, but for most an acquisition in a decade is quite an event. As is the case in most unfamiliar business experiences, the probability of success depends on the amount of planning that precedes the opening negotiations. Market and marketing *research* is the often overlooked key, more so than financial number-crunching. Looking at the needs of the public instead of the traditional "what's-in-it-for-us" approach will let you sight your target through cross hairs and identify what is really being acquired before you gently but firmly squeeze the trigger. The first question is, "What are we trying to accomplish?" This is hard to answer well. "Will being larger give us more clout in the marketplace?" and "Do we have resources that can be used to improve another company?" are others that need to be asked before squeezing the trigger.

Objective analysis of your company's strengths, weaknesses, and ambitions sketches a helpful profile of the kind of company that would best augment your existing opportunities

"Always keep in mind that getting what you want is related to what you bring—the expertise, patents, distribution that the bride doesn't have."

for vigorous growth. But don't let your impatience for instant growth blind you to the possibility that making an acquisition can be as risky and time-consuming as gestating a new idea. This is the time for realism, not fantasy. Be careful that the target you aim at is not your own foot.

The primary responsibility at this stage is to set a goal that is realistically achievable and then plot a plan to bring it about, a battle plan that will guide the campaign. The policy statement that emerges should be communicated early and adhered to as long as possible. Setting a goal is not so restrictive as it might seem. It doesn't rule out the possibility of a lucky strike. But most lucky strikes are the serendipitous result of a disciplined pursuit of a plan. Having a clearly defined goal in mind focuses attention. It is the yardstick you use to measure the fit of prospects during the screening phase. Always keep in mind that getting what you want is related to what you bring—the expertise, patents, distribution that the bride doesn't have.

Time and Financial Targets

After the policy statement has been agreed upon, the next step is to set time and budget goals. This keeps the emphasis on activity directed toward the accomplishment of the objective rather than on unproductive running in place. The responsibility to find a proper candidate is a serious one because it may have substantial impact on the future of your company. It therefore merits the kind of support and budget that management extends to R&D. Anything short of this represents tire kicking, not commitment. If the support is not there, stay away from the project: It is bound to fail.

Internal Communications

Communication between top management and the acquisition group should not be speaking in tongues. Acquisition efforts need to be reviewed regularly so that there will be no surprises. Management deserves the opportunity to call off early in the pursuit activities that it will not support. On the other hand, acquisition personnel need enough autonomy to develop adequately a case on behalf of candidates whose merits may not leap immediately to the eye. If top management is kept fully informed, it is in a position to offer creative input that may convert apparent negatives into positives. This sort of interaction has the effect of unifying the acquisition effort.

The exchange of information needs to be implemented through a system of internal communications. A good communications control system should incorporate four things:

1. Agreement on limits of independent activity and expenditure.
2. A time schedule for interview of acquisition candidates.
3. Regular reporting of progress against targets.
4. A clear understanding of who is managing the process.

Staffing the Acquisition Effort

Many departments of the company inevitably will be involved in the acquisition process. They will participate before, during, and after the decision is made. The development of an acquisition policy, negotiation, and the final decision to consummate the deal must be the responsibility of those with the broadest view. But the groundwork, assembly, and analysis can be done best by people who are oriented toward understanding the marketplace, the motivations of the consumer. Critical financial analysis can come later. In fact, you can't escape it. The consumer may be overlooked, but the finances won't.

It is unlikely that anyone in your company has hands-on experience in acquisition. You know as much as anyone: it is an opportunity to grasp control. It would be a mistake to overstaff the acquisition group in the beginning. Bodies can needlessly complicate what should be an uncluttered process of thought and research. Initially, therefore, the preparatory steps can be directed by one individual with the authority to call on the expertise various departments can contribute to the project. This is an excellent way to use a consultant: this stage has a short life and requires intense effort and skills that most organizations can't afford to keep on tap.

As the project takes on direction, more time and effort will be required on specifics, and the need for supplemental help will become more appar-

ent. Several persons can be working on different activities in different stages.

Sifting through the Sand

In a successful acquisition program, a great deal of sand has to be sifted for very little gold. The search may involve 20, 50, or 100 possibilities that vary greatly in quality. But as the sifting procedure eliminates the inappropriate candidates, the supply of promising prospects must be replenished. Without this, you may find yourself trying to breathe life into the projects that are left rather than pursuing those that are worthwhile.

The more options and ideas you have to work with, the more likely you are to succeed. Some prospects will be patently impractical for one reason or another. Some may appear to be borderline, but don't toss these into the discard pile too quickly. A reexamination of the pluses and minuses may reveal subtle advantages that make the acquisition more appealing. Look for the glint of gold in the tailings as you prospect.

In casting about for input, you should consider such sources as consumer research, advertising agencies, legal and financial consultants, creative groups, business associates, customers, suppliers, and yes, even competitors if you enjoy a friendly rivalry. But don't expect folks to come bouncing into the office shouting, "Hey! Why don't you go after the XYZ company? It's a great fit."

Your bank's business development department has a stake in your future growth. It would be useful to make a detailed presentation to the people in that department so that they have a clear picture of what prospects would interest you. Remind them that, the bigger and more successful you become, the better customer you'll be. The same is true in the business community. Whether contact is made in person or written communication, don't let it stop there. Following up impresses on your contacts the sincerity of your request for their help.

Business brokers sometimes have had a bad press. Some of the wariness may be justified. But there *are* brokers who can work closely within carefully defined specifications. They know their way around. They have long ears and sharp eyes. They can maintain your anonymity. These attributes can save you a lot of time and answer a lot of questions. The best approach is to spell out in writing what is expected of the brokers and how they are to be paid. There are standard schedules for such services. The seller usually pays the fee.

In the absence of a system, trying to evaluate all the suggestions you gather from the various sources can be confusing. It doesn't have to be. During the initial search phase, the evaluation formula should be flexible because your focus at this time may still be a little soft. As the winnowing process advances, however, criteria for evaluation should become more stringent. This will accelerate the elimination of those ideas that lack sufficient merit. But make haste slowly. An idea which may not fit today may be just what you're looking for tomorrow. File "for future exploration." That file may prove to be useful at some later date when you go for another acquisition.

The Screening Funnel

The screening funnel, which is constructed from key points in the corporate charter or the policy statement, can be visualized as being very wide at the top, then narrowing in gradations to a small outlet. At each level of descent in the funnel, the focus becomes sharper and the time and effort applied to the project increase. Theoretically, as the screening narrows, the likelihood of a successful culmination is enhanced.

Among the initial questions to be asked are:

- Does it fit the guidelines? If it doesn't, should the guidelines be modified?
- What is the ball-park price likely to be? (For a "quick and dirty" estimate, assume the purchase price to be the same as the sales volume.)
- Is the purchase reasonable?
- Is there a reason for this particular product or service?
- Can a satisfactory growth rate or return be projected?
- Is the need/want growing?

As the screening narrows, questions will become more specific, as management seeks the answer to the question, "What do we bring to the party?"

- What continuing investment is required?
- What will be the impact on corporate operations?
- Can the prospect be convinced to sell?
- Will "the brain" remain after the acquisition?

In order to screen options, an acquisition screening matrix is handy. It also can help sharpen corporate focus. The topics covered can be changed to fit specific needs but are general enough for broad application.

The basis of the system is an assessment of your company's strengths relative to the prospects. It can be used with various formulas, but here is a simple method. Put the letter "A" (for your company's strengths) in the appropriate boxes. Then enter your *assumptions,* using the letter "C" for candidate, about the prospective acquisition. Repeating the process for five to ten prospects will help sort out choices. Do one "for fun" in about five minutes. See how it quickly points out the kind of a meld that might exist or areas that need a closer look. Wide differences on the low side of the scale signal caution.

Tables 1 and 2 are speculative recreations of two projects in which the management of Reckitt & Colman,

Ltd., was involved. R&C long had had an eye on the U.S. market for its household products, and both Air Wick and Kiwi had U.S. household bases that probably were better than R&C's. **Table 1** looks at Air Wick, which R&C actually acquired, and **Table 2** examines Kiwi, an unsuccessful acquisition attempt. Both acquisitions look very good on the matrix because the prospect and the acquirer are complementary on most significant points, especially strategic fit.

Table 3 is an acquisition that failed. The matrix shows a large differential between the acquirer and the prospect on practically every count. The driving force in the acquisition was

Table 1

Acquisition Screening Matrix for a Successful Acquisition

Prospective Company: CEIBA GEIGY Product/Service: Airwick Products

Rating	*1*	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*
Sales Volume			AWK					RC		
Consumer Franchise					RC		AWK			
Proprietary Products							RC AWK			
Marketing					RC		AWK			
Distribution					RC		AWK			
Manufacturing					AWK		RC			
Management					AWK		RC			
R&D					RC		AWK			
Financial Strength				AWK				RC		
Profitability					AWK	RC				
Strategic Fit										AWK

AWK = Candidate (assumed information)
R&C = Reckitt & Colman

Table 2

Acquisition Screening Matrix for an Acquisition Attempt That Failed

Prospective Company: KIWI Product/Service: Polishes

Rating	*1*	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*
Sales Volume			K					RC		
Consumer Franchise						RC		K		
Proprietary Products				K		RC				
Marketing					RC K					
Distribution					RC		K			
Manufacturing					K		RC			
Management					K		RC			
R&D				K			RC			
Financial Strength				K			RC			
Profitability						RC	K			
Strategic Fit								K		

K = Kiwi
R&C = Reckitt & Colman

Table 3

Acquisition Screening Matrix

Prospective Company: FORMAN BROTHERS   Product/Service: Pickles & Relishes

Rating	*1*	2	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*
Sales Volume	P							A		
Consumer Franchise			P						A	
Proprietary Products			P					A		
Marketing			P					A		
Distribution			P					A		
Manufacturing			P					A		
Management			A					P		
R&D	P							A		
Financial Strength		P						A		
Profitability			P					A		
Strategic Fit			P							

P = Prospect (assumed information)
A = Your company

The ideal candidate should complement yours: be weak where you are strong or strong where you are weak. Therefore, the strength rating compares your company to the prospective company.

the friendship between the two managements. Despite the facts, friendship won out and the acquisition took place. Immediately after selling out, the pickle works management, which knew its pickles from A to Z, retired to Florida, leaving the acquirer to learn how to run a business that it had little reason to be in at all.

As options are screened, one or two ideas will emerge that call for detailed study. Legal considerations may present themselves; financial problems and marketing approaches should be examined with an eye to uncovering hidden hazards to a successful union. If return on investment is below the established guidelines, some thought must be given to how it can be raised to an acceptable level—if, indeed, it can be raised.

Looking Forward and Backward

Measuring the value of a prospect by its history alone is difficult. Acquisition involves assumptions about the future, not the past. It is an investment based upon faith. After all, the mistakes the prospect has made may be the reason that it is a good buy today. All it may need is what you bring to the project to make it successful.

Most estimators have difficulty projecting the future for established products with a proven track record. It is even more troublesome to predict what will occur with unproven ideas.

To get a handle on acquisitions that market consumer products, it may be wise to enlist the aid of consumer product testing laboratories or social trend predictive systems. They can gauge with some accuracy the public's present and future assessment of the value of the product or service being offered. The desires of the public are often overlooked. Simple user focus group sessions can be an eye-opener, whether the business is consumer or industrial.

The opinion of an outside consultant can help reduce the possibility of error. Outside assistance can be especially valuable because the acquiring company too often falls into the trap of looking at the acquisition from what *it* wants. The better approach is to look at what the *marketplace* wants and work backward from there. Management's vision shouldn't be colored by what it *wants* to happen, as opposed to what is *likely* to happen.

Acquisition can be a speedy way to corporate development. It does have risks. But if approached creatively, realistically, and with a marketing orientation, the risk can be much lower than in other development activities. The key to success lies in what the acquirer provides, not what he gets.

A good place to start is with a copy of the *Standard Directory of Advertisers* or any similar reference book. Open it to a category of interest. Check the companies that seem to offer, on the surface, synergistic or symbiotic possibilities. A study of these interesting candidates will reveal a pattern of the kinds of businesses that will help develop the acquisition policy statement. Once you have isolated the essential features for a desirable acquisition, you have fashioned the key to a successful acquisition program. ☐